How do layoffs affect employers?

The following tables show examples of how layoffs affect different employers. Table I lists three employers who have had no benefits charged to their experience rating account during the previous three years. The table assumes all workers earn $31,590 in wages during the year.

Table I

Employer	# of Workers	Total Wages	Taxable Wages	Tax Rate	Total Annual Tax
A	5	$157,950	$40,000	0.4%	$160
B	50	$1,579,500	$400,000	0.4%	$1,600
C	500	$15,795,000	$4,000,000	0.4%	$16,000

If the same three employers experience a 20% reduction in workers and those workers qualify for the maximum weekly benefit ($351), the employers' taxes will change as depicted in Table II the following year. Federal law requires states to look at a minimum of three years of benefits so the layoffs will influence tax rates for three years. The table assumes that all unemployed workers received the maximum allowable 26 weeks of benefits.

20 Percent Reduction in Workers
Table II

Employer	# of Workers Remaining	Total Wages	Taxable Wages	Tax Rate	Total Annual Tax	Benefits Paid
A	4	$126.360	$32,000	5.0%	$1,600	$9,126
B	40	$1,263,600	$320,000	5.0%	$16,000	$91,260
C	400	$12,636,000	$3,200,000	5.0%	$160,000	$912,600

If these same employers each experience one layoff, the effect changes. The larger employers' tax rates do not increase as much as the smaller employer, but large employers end up paying much more in taxes than the smaller employer.

One Worker Laid off
Table III

Employer	# of Workers Remaining	Total Wages	Taxable Wages	Tax Rate	Total Annual Tax	Benefits Paid
A	4	$126,360	$32,000	5.0%	$1,600	$9,126
B	49	$1,263,600	$ 392,000	2.9%	$11,360	$9,126
C	499	$12,636,000	$3,999,200	0.6%	$23,995	$9,126

These examples show that employers with the same relative reduction in workers are treated the same. They also show how pooling risk protects employers with relatively large layoffs. A portion of the cost of benefits paid to the employees in these relatively large reductions is absorbed by the fund as a whole. Finally, larger employers with small relative reductions in employees pay more than their workers receive in benefits. As a self-contained system, larger employers with a small layoff cover much of the cost of the pooled risk and the cost of benefits not charged to any account.